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CITIZENS SUMMARY

Survey of Public Employee Retirement Systems in Missouri

Background

The financial condition and long-term sustainability of public employee retirement plans has been a recent topic of discussion nationwide. This survey provides information and reports key data of Missouri public employee defined benefit (DB) retirement plans that help indicate financial condition of the plans.

Our survey focuses on public employee DB retirement plans, due to the risks to the sponsoring governments and ongoing liabilities associated with such plans. A typical DB plan guarantees monthly payments to eligible members, beginning upon retirement. Benefits are calculated based on a formula that considers employees' salaries, length of service, and a multiplier. Generally, a large portion of contributions are paid by the sponsoring government. DB plans use an actuarial valuation process to determine the actuarial value of plans' liabilities, assets, and related annual required contributions.

As of December 31, 2012, there were 89 DB plans in Missouri, covering approximately 546,000 members. These plans reported actuarial assets totaling approximately \$57 billion and actuarial accrued liabilities totaling approximately \$73 billion. Ninety-four percent of all employees participating in public employee DB retirement plans in Missouri are members of the 15 plans selected for additional analysis in our report.

Survey Results

There are several key indicators of plan financial condition. These indicators should not be viewed individually, but in combination with other indicators along with a plan's actuarial assumptions and policies. In addition, the indicators should not be reviewed at a single point in time, but trends in the indicators should be reviewed over an extended period. Our review of various indicators found the financial condition of Missouri plans varied widely, with some indicating very good financial condition and others indicating very poor financial condition. Many plans have experienced worsened financial condition in recent years, primarily due to economic and financial market downturns associated with the recession from 2007 to 2009.

The most often cited indicator of plan financial condition is the funded ratio. In simple terms, the funded ratio is the percentage of the present value of future retirement benefit payments previously earned by employees (actuarial accrued liabilities) that are covered by plan assets as of a specific date. The aggregate funded ratio of Missouri plans has decreased from 83 percent to 78 percent between 2003 and 2012, but is higher than aggregate funded ratios reported at the national level. In 2012, 40 of the 89 Missouri plans (covering 67 percent of statewide members) had funded ratios of 80 percent or higher, which is down from 47 such plans in 2003. Aggregate unfunded actuarial accrued liabilities for the Missouri plans has nearly doubled in the past 10 years, from \$8.18 billion in 2003 to \$16.02 billion in 2012.

Actual contributions paid as a percentage of the annual required contribution (ARC) calculated by the plan's actuary measures an employer's commitment to achieving the plan's overall funding goals. In aggregate, Missouri plans received 94 percent of ARC in 2012. However, 34 plans (covering 33 percent of statewide members) received less than 100 percent of the ARC in 2012. The failure of sponsoring governments to fully fund the ARC makes it difficult for the plans to reach financial goals.

ARC as a percentage of covered payroll (also referred to as contribution rate) can indicate the stress the required contribution level could assert on the government's budget and operations. The aggregate ARC as a percentage of covered payroll in 2012 for the 15 selected plans was 14.18 percent, an increase from 9.70 percent in 2003.

Investment income often provides the largest portion of DB plan assets. Another key indicator is a comparison of long-term annualized market rates to assumed rates of investment return. Several of the 15 selected plans underperformed their assumed rates of return for the 10-year period ended in 2012. However, of the 10 largest plans, which cover 92 percent of statewide members, only 1 plan underperformed the investment return assumptions on both the 10-year and longer-term basis.

Other key indicators of financial condition include ARC as a percentage of the sponsoring government's budget and unfunded actuarial accrued liability as a percentage of covered payroll.

The financial condition of the 89 Missouri public employee DB plans is impacted by various external factors and decisions made by the plans' governing boards and sponsoring governments. Key influences of financial condition identified and discussed in this survey include economic conditions and investment performance, benefit structure, board governance, investment policy, contribution and funding policies, and selection of actuarial assumptions and methods. Because the interaction of factors that impact a plan's financial condition can vary among DB plans, it is difficult to compare the plans.

Our survey identified various key practices DB plans should follow to support adequate financial condition. Many of these practices have been implemented by Missouri plans, including the 15 selected plans. Governing boards and sponsoring governments of many of the largest and statewide plans in Missouri have taken measures to strengthen financial condition. However, it will take time before the effect of such changes become fully evident.

The appendixes to this survey present key background, financial, and actuarial data for each of the 89 Missouri public employee DB plans.

Because of the compound nature of this report, no overall rating is provided.
